

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Ellsworth	County Antrim
Audit Date 2/28/06	Opinion Date 5/18/06	Date Accountant Report Submitted to State: 6/9/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

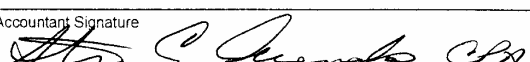
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:			
	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.			
Street Address 134 W. Harris Street	City Cadillac	State MI	ZIP 49601
Accountant Signature 		Date 6/12/06	

VILLAGE OF ELLSWORTH, MICHIGAN

FEBRUARY 28, 2006

VILLAGE OF ELLSWORTH, MICHIGAN

FEBRUARY 28, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

May 18, 2006

INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Ellsworth, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Village of Ellsworth, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Ellsworth, Michigan's, management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Village of Ellsworth, Michigan, as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated May 18, 2006 on our consideration of the Village of Ellsworth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over

financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through x and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepting in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Ellsworth, Michigan, basic financial statements. The individual fund financial statements and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

VILLAGE OF ELLSWORTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Management's Discussion and Analysis

The management of the Village of Ellsworth, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2006, along with specific comparative information as required for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

Government-Wide

- ❖ The assets of the Village exceeded its liabilities at the close of this fiscal year by \$767,115 (shown as *Net Assets*), representing a decrease of \$20,251 from the previous fiscal year. Governmental Funds represented \$7,681 of this decrease, while Business-Type activities accounted for a decrease \$12,570 in net assets.

Fund Level Financial Highlights

- ❖ As of February 28, 2006, the governmental funds of the Village of Ellsworth reported combined ending fund balances of \$144,559, of which \$142,793 is unreserved.
- ❖ The unreserved fund balance of the Village's General Fund decreased this year to \$130,297, or 58.03% of total general fund expenditures.

Long-Term Debt

- ❖ The Village of Ellsworth's total debt **increased** by \$6,734 during the fiscal year.

Overview of the Financial Statements

The Village of Ellsworth's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

VILLAGE OF ELLSWORTH

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

The *Statement of Net Assets* (Pages 1-2) presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The *Statement of Activities* (Page 3) gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the Village include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the Village include water utility services.

Focus on Funds

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The Village's major Governmental Funds include the General Fund, Major Street Fund, Local Street Fund and Recreation Fund. The major Proprietary Fund is the Water Fund. Presentation of major funds can be found on pages 29-50 of this document.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village of Ellsworth uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the Village's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balance as an expenditure. No

VILLAGE OF ELLSWORTH

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Village include the General Fund as well as the special revenue funds.

Proprietary Funds Proprietary funds account for services for which the Village charges its customers for the services they are provided. These charges can be to external customers or other agencies within the Village. Enterprise funds are one type of proprietary funds:

- Enterprise funds are used to report business-like activities of the Village. These activities intend to recover the full cost of the services through the fee charged to the customers. The Village has one enterprise fund, which is the Water Fund.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found beginning on Page 14 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements. This information can be found beginning on Page 28 of this report.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Village's financial position over time. The Net Assets of the Village are \$767,115 at February 28, 2006, meaning that the Village's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. A comparison with the previous fiscal year is presented in order to show the change in net assets over the previous fiscal year.

VILLAGE OF ELLSWORTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Village of Ellsworth
Net Assets
As of February 28,

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 171,245	\$ 184,875	\$ 110,592	\$ 94,932	\$ 281,837	\$ 579,807
Capital Assets	139,908	93,049	723,640	755,301	863,548	848,350
Total Assets	\$ 311,153	\$ 277,924	\$ 834,232	\$850,233	\$1,145,385	\$1,428,157
Long-term liabilities	\$ 9,233	\$ 0	\$ 324,000	\$332,000	\$ 333,233	\$ 332,000
Other liabilities	32,212	9,174	12,825	8,256	45,037	17,430
Total Liabilities	\$ 41,445	\$ 9,174	\$ 336,825	\$340,256	\$ 378,270	\$ 349,430
Net Assets						
Invested in capital assets net of related debt	\$ 134,382	\$ 92,024	\$ 391,640	\$416,301	\$ 526,022	\$ 508,325
Restricted	0	0	67,434	66,991	67,434	66,991
Unrestricted	135,326	176,726	38,333	26,685	173,659	203,411
Total Net Assets	\$ 269,708	\$ 268,750	\$ 497,407	\$509,977	\$ 767,115	\$ 778,727

The most significant portion of the Village's Net Assets is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the Village used to acquire or construct the asset. The Village has \$173,659 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Village policies regarding their use.

The following table illustrates and summarizes the results of the changes in the Net Assets for the Village. The condensed information was derived from the Government-wide Statement of Activities.

VILLAGE OF ELLSWORTH

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

*Village of Ellsworth
Change in Net Assets
For the Fiscal Year Ended February 28,*

	Governmental Activities		Business-Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$ 1,900	\$ 1,061	\$ 62,928	\$ 58,352	\$ 64,828	\$ 59,413
Operating Grants and Contributions	77,107	78,980	0	0	77,107	78,980
General Revenues						
Property Taxes and Assessments	84,772	80,029	0	0	84,772	80,029
State Shared Revenue	52,434	56,951	0	0	52,434	56,951
Unrestricted Investment Earnings	59,468	43,809	2,083	1,771	61,551	45,580
Other	3,648	20,568	24,023	24,345	27,671	44,913
Total Revenues	<u>\$ 279,329</u>	<u>\$281,398</u>	<u>\$ 89,034</u>	<u>\$ 84,468</u>	<u>\$ 368,363</u>	<u>\$ 365,866</u>
<u>Expenses</u>						
Legislative	\$ 10,117	\$ 11,695	\$ 0	\$ 0	\$ 10,117	\$ 11,695
General Government, Administrative	100,414	91,328	0	0	100,414	91,328
Public Safety	7,828	1,720	0	0	7,828	1,720
Public Works	123,313	92,493	0	0	123,313	92,493
Recreation and Culture	23,221	26,545	0	0	23,221	26,545
Community and Economic Development	2,649	2,679	0	0	2,649	2,679
Health and Welfare	3,500	3,500	0	0	3,500	3,500
Other Function	15,441	15,055	0	0	15,441	15,055
Interest on Long-Term Debt	527	105	0	0	527	105
Water	0	0	101,604	100,303	101,604	100,303
Total Expenses	<u>\$ 287,010</u>	<u>\$245,120</u>	<u>\$ 101,604</u>	<u>\$ 100,303</u>	<u>\$ 388,614</u>	<u>\$ 345,423</u>
Increase(Decrease) in Net Assets	\$ (7,681)	\$ 36,278	\$ (12,570)	\$ (15,835)	\$ (20,251)	\$ 20,443
Beginning Net Assets	277,389	232,472	509,977	525,812	787,366	758,284
Ending Net Assets	<u>\$ 269,708</u>	<u>\$268,750</u>	<u>\$ 497,407</u>	<u>\$ 509,977</u>	<u>\$ 767,115</u>	<u>\$ 778,727</u>

Governmental Activities

The most significant portion of the revenue for all governmental activities of the Village of Ellsworth comes from Property Taxes (30.3%). The Village's operating millage remained the

VILLAGE OF ELLSWORTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

same in 2006 at 11 mills. The Village's charter allows the Village to levy up to 15 mills for operations.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. In 2006, the amount of state shared revenue received by the Village once again trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The Village's governmental activities expenses are dominated by the Public Works expenses that total 43.0% of total expenses. The Village spent \$123,313 in FY2006 on Public Works. Expenses in the Major Street Fund (\$73,889) and Local Street Fund (\$34,921) represent a majority of the Public Works expenditures. General Government Administrative represented the next largest expense at \$100,414 or 35.0% of total expenses within the governmental activities.

Business-Type Activities

These activities accounted for a decrease of \$12,570 in the Village's Net Assets.

The Business-type activities of the Village include the Water Fund, which provides water utility services to Village residents as well as commercial customers.

Financial Analysis of the Government's Funds

Governmental Activities At the completion of the Village's fiscal year ended February 28, 2006, its governmental funds reported fund balances of \$144,559. Of this amount, \$142,793, or 98.8% is unreserved. This amount includes \$12,496 designated for street improvements. The remaining \$1,766 of fund balance of the governmental funds is reserved for specific purposes and is therefore not available for new appropriation.

General Fund – The General Fund is the main operating fund of the Village. The General Fund decreased its fund balance in this fiscal year by \$4,857, bringing the balance to \$130,297. Unreserved fund balance decreased by \$4,857. All of the General Fund's major functions with the exception of Other Functions, Buildings and Grounds and Debt Service ended the year with expenditures below appropriated amounts. In the Other Functions, an increase in liability insurance expense accounted for much of the overage. In Building and Grounds, an increase in capital outlay expense accounted for much of the overage. Property tax revenues in the General Fund increased \$4,743 in 2006, an increase of 5.9%. State shared revenue decreased by \$295 from the amount received in the previous fiscal year, representing a 0.6% reduction which resulted from State actions in response to the economic slowdown experienced throughout the State.

VILLAGE OF ELLSWORTH

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Major Street Fund – The Major Street Fund completed \$26,715 in street improvements in this fiscal year. The fund balance of the Major Street Fund ended the year at \$12,131. This was a reduction of \$30,314 from the previous year. The Village used funds accumulated from previous years in order to complete this year's projects.

Local Street Fund – The Local Street Fund completed \$19,136 in street construction and improvements in this fiscal year. The fund balance of this fund is at \$365, a decrease of \$5,430, during this fiscal year.

Recreation Fund – The fund balance of this fund is at \$1,766, a decrease of \$205, during the fiscal year.

Proprietary Funds The Village's proprietary fund provides virtually the same information as the government-wide statements; however more detail may be found in the fund financial statements.

Water Fund – The Water Fund ended this fiscal year with \$38,333 in unrestricted net assets. This fund experienced an increase in interest income of \$312, or 17.6% from the previous fiscal year. The net assets of the fund decreased by \$12,570 in 2006. This fund remains in sound fiscal condition moving forward.

Capital Asset and Debt Administration

Capital Assets. The Village's investment in capital assets for the governmental and business-type activities as of February 28, 2006 amounted to \$863,548 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

*Village of Ellsworth
Capital Assets as of February 28,*

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land and Land Improvements	\$ 55,467	\$ 19,075	\$ 0	\$ 0	\$ 55,467	\$ 19,075
Buildings	109,000	109,000	29,337	29,337	138,337	138,337
Improvements other than Buildings	0	0	1,184,489	1,184,489	1,184,489	1,184,489
Machinery and Equipment	138,163	119,399	50,643	50,643	188,806	170,042
Subtotal	\$ 302,630	\$ 247,474	\$ 1,264,469	\$ 1,264,469	\$ 1,567,099	\$ 1,511,943
Accumulated Depreciation	162,722	154,425	540,829	509,168	703,551	663,593
Net Capital Assets	\$ 139,908	\$ 93,049	\$ 723,640	\$ 755,301	\$ 863,548	\$ 848,350

VILLAGE OF ELLSWORTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Major capital asset events during FY2006 included the following:

- Land was purchased at a cost of \$36,392.
- A tractor was purchased at a cost of \$18,763.

Additional information regarding the Village's capital assets can be found in the Notes to Financial Statements section on pages 23-24.

Long-Term Debt. As of February 28, 2006, the Village had total bonded debt outstanding of \$332,000, and a note payable outstanding of \$14,759. The Village's debt represents bonds secured solely by specified revenue sources and a note acquired for an equipment purchase in the General Fund. The revenue bonds are associated with the Water Fund (\$332,000), are backed by revenues from the Water system, and have been used to finance major capital projects within the Water system.

*Village of Ellsworth Outstanding Debt
Revenue Bonds
as of February 28, 2006*

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total Primary</u>
Contracts and Notes	\$	14,759	\$	0	\$ 14,759
Revenue Bonds		0		332,000	332,000
Total	\$	14,759	\$	332,000	\$ 346,759

The Village issued no new bonded debt, but did acquire a new note payable in FY2006, and the total debt increased from \$340,025 at February 28, 2005, to \$346,759 at February 28, 2006, an increase of \$6,734. More information on the Village's long-term debt is available in the Notes to Financial Statements section of this document, on pages 25-26.

Contacting the Village's Finance Department

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of Ellsworth, P.O. Box 265, Ellsworth, Michigan 49729, or call us at (231) 588-7411.

VILLAGE OF ELLSWORTH, MICHIGAN

STATEMENT OF NET ASSETS

FEBRUARY 28, 2006

		PRIMARY GOVERNMENT		
		GOVERNMENTAL	BUSINESS	
		ACTIVITIES	TYPE	TOTALS
		ACTIVITIES	ACTIVITIES	
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash	\$	142,538	\$ 33,157	\$ 175,695
Receivables				
Accounts		0	8,555	8,555
Internal Balances		554	(554)	0
Due from Other Governments		28,153	0	28,153
Inventory		0	2,000	2,000
Total Current Assets	\$	171,245	\$ 43,158	\$ 214,403
<u>RESTRICTED ASSETS</u>				
Deposits				
Bond and Interest Redemption Fund	\$	0	\$ 25,000	\$ 25,000
Bond Reserve Account		0	37,433	37,433
Special Purpose Account		0	5,001	5,001
Total Restricted Assets	\$	0	\$ 67,434	\$ 67,434
<u>CAPITAL ASSETS</u>				
Land	\$	36,409	\$ 0	\$ 36,409
Land Improvements		19,058	0	19,058
Buildings		109,000	29,337	138,337
Machinery and Equipment		138,163	50,643	188,806
System Infrastructure		0	1,184,489	1,184,489
	\$	302,630	\$ 1,264,469	\$ 382,610
Less Accumulated Depreciation		162,722	540,829	703,551
Net Capital Assets	\$	139,908	\$ 723,640	\$ (320,941)
TOTAL ASSETS	\$	311,153	\$ 834,232	\$ (39,104)

The accompanying notes are an integral part of the financial statements.

	PRIMARY GOVERNMENT		
	GOVERNMENTAL	BUSINESS	
	ACTIVITIES	TYPE	TOTALS
	ACTIVITIES	ACTIVITIES	
<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES</u>			
Bank Overdraft	\$ 12,871	\$ 0	\$ 12,871
Accounts Payable	8,173	4,825	12,998
Payroll Withholdings Payable	465	0	465
Accrued Expenses	5,177	0	5,177
Current Portion of Long-Term Debt	5,526	8,000	13,526
Total Current Liabilities	\$ 32,212	\$ 12,825	\$ 45,037
<u>LONG-TERM LIABILITIES</u>			
Equipment Note Payable	\$ 9,233	\$ 0	\$ 9,233
Revenue Bonds	0	324,000	324,000
Total Long-Term Liabilities	\$ 9,233	\$ 324,000	\$ 333,233
TOTAL LIABILITIES	\$ 41,445	\$ 336,825	\$ 378,270
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 134,382	\$ 391,640	\$ 526,022
Restricted for Debt Service	0	62,433	62,433
Restricted for Special Purposes	0	5,001	5,001
Unrestricted	135,326	38,333	173,659
TOTAL NET ASSETS	\$ 269,708	\$ 497,407	\$ 767,115
TOTAL LIABILITIES AND NET ASSETS	\$ 311,153	\$ 834,232	\$ 1,145,385

The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL	BUSINESS-TYPE	TOTALS
				ACTIVITIES	ACTIVITIES	
<u>PRIMARY GOVERNMENT</u>						
<u>GOVERNMENTAL ACTIVITIES</u>						
Legislative	\$ 10,117	\$ 0	\$ 0	\$ (10,117)	\$ 0	\$ (10,117)
General Government, Administrative	100,414	0	2,650	(97,764)	0	(97,764)
Public Safety	7,828	500	0	(7,328)	0	(7,328)
Public Works	123,313	0	70,957	(52,356)	0	(52,356)
Recreation and Culture	23,221	1,400	3,500	(18,321)	0	(18,321)
Community and Economic Development	2,649	0	0	(2,649)	0	(2,649)
Health and Welfare	3,500	0	0	(3,500)	0	(3,500)
Other Functions	15,441	0	0	(15,441)	0	(15,441)
Interest on Long-Term Debt	527	0	0	(527)	0	(527)
Total Governmental Activities	\$ 287,010	\$ 1,900	\$ 77,107	\$ (208,003)	\$ 0	\$ (208,003)
<u>BUSINESS-TYPE ACTIVITIES</u>						
Water System	101,604	62,928	0	0	(38,676)	(38,676)
TOTAL	\$ 388,614	\$ 64,828	\$ 77,107	\$ (208,003)	\$ (38,676)	\$ (246,679)
<u>GENERAL REVENUES</u>						
Taxes				\$ 84,772	\$ 0	\$ 84,772
State Shared Revenues				52,434	0	52,434
Unrestricted Investment Earnings				59,468	2,083	61,551
Other				3,648	24,023	27,671
				\$ 200,322	\$ 26,106	\$ 226,428
Change in Net Assets				\$ (7,681)	\$ (12,570)	\$ (20,251)
NET ASSETS - Beginning of Year				277,389	509,977	787,366
NET ASSETS - End of Year				\$ 269,708	\$ 497,407	\$ 767,115

The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

FEBRUARY 28, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	RECREATION FUND	TOTALS
<u>ASSETS</u>					
Cash	\$ 128,055	\$ 12,717	\$ 0	\$ 1,766	\$ 142,538
Due from Other Governments	8,053	8,732	11,368	0	28,153
Due from Other Funds	3,807	0	5,950	0	9,757
TOTAL ASSETS	<u>\$ 136,108</u>	<u>\$ 21,449</u>	<u>\$ 11,368</u>	<u>\$ 1,766</u>	<u>\$ 170,691</u>
 <u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Bank Overdraft	\$ 0	\$ 0	\$ 12,871	\$ 0	\$ 12,871
Accounts Payable	3,976	3,368	829	0	8,173
Payroll Withholdings Payable	465	0	0	0	465
Accrued Wages	5,177	0	0	0	5,177
Due to Other Funds	0	5,950	3,253	0	9,203
Total Liabilities	<u>\$ 9,618</u>	<u>\$ 9,318</u>	<u>\$ 16,953</u>	<u>\$ 0</u>	<u>\$ 35,889</u>
 <u>FUND BALANCE</u>					
Reserved for:					
Recreation Programs	\$ 0	\$ 0	\$ 0	\$ 1,766	\$ 1,766
Unreserved:					
Designated for:					
Street Improvements	0	12,131	365	0	12,496
Undesignated	130,297	0	0	0	130,297
Total Fund Balance	<u>\$ 130,297</u>	<u>\$ 12,131</u>	<u>\$ 365</u>	<u>\$ 1,766</u>	<u>\$ 144,559</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 139,915</u>	 <u>\$ 21,449</u>	 <u>\$ 17,318</u>	 <u>\$ 1,766</u>	 <u>\$ 180,448</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
FEBRUARY 28, 2006

Total Fund Balances for Governmental Funds	\$	144,559
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$	36,409	
Land Improvements		19,058	
Buildings		109,000	
Machinery and Equipment		138,163	
Accumulated Depreciation		<u>(162,722)</u>	139,908

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds.

Equipment Note Payable		<u>(14,759)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>269,708</u></u>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED FEBRUARY 28, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	RECREATION FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 84,772	\$ 0	\$ 0	\$ 0	\$ 84,772
Licenses and Permits	500	0	0	0	500
State Grants	52,434	48,407	22,550	0	123,391
Contributions from Local Units	0	0	0	3,500	3,500
Charges for Services	0	0	0	1,400	1,400
Interest and Rents	59,237	196	35	0	59,468
Other Revenue	3,955	1,472	406	465	6,298
Total Revenues	\$ 200,898	\$ 50,075	\$ 22,991	\$ 5,365	\$ 279,329
<u>EXPENDITURES</u>					
Legislative	\$ 10,117	\$ 0	\$ 0	\$ 0	\$ 10,117
General Government	147,273	0	0	0	147,273
Public Safety	7,828	0	0	0	7,828
Public Works	14,503	73,889	34,921	0	123,313
Community and Economic Development	2,649	0	0	0	2,649
Health and Welfare	3,500	0	0	0	3,500
Recreation and Cultural	15,951	0	0	7,270	23,221
Other Functions	15,441	0	0	0	15,441
Debt Service	5,556	0	0	0	5,556
Total Expenditures	\$ 222,818	\$ 73,889	\$ 34,921	\$ 7,270	\$ 338,898
<u>Excess (Deficiency) of Revenues</u>					
Over Expenditures	\$ (21,920)	\$ (23,814)	\$ (11,930)	\$ (1,905)	\$ (59,569)

The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED FEBRUARY 28, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	RECREATION FUND	TOTALS
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers In	\$ 0	\$ 0	\$ 6,500	\$ 1,700	\$ 8,200
Transfers Out	(1,700)	(6,500)	0	0	(8,200)
Loan Proceeds	18,763	0	0	0	18,763
Total Other Financing Sources (Uses)	\$ 17,063	\$ (6,500)	\$ 6,500	\$ 1,700	\$ 18,763
Net Changes in Fund Balances	\$ (4,857)	\$ (30,314)	\$ (5,430)	\$ (205)	\$ (40,806)
<u>FUND BALANCES</u> - Beginning of Year	135,154	42,445	5,795	1,971	185,365
<u>FUND BALANCES</u> - End of Year	<u>\$ 130,297</u>	<u>\$ 12,131</u>	<u>\$ 365</u>	<u>\$ 1,766</u>	<u>\$ 144,559</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (40,806)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.

Depreciation Expense	(8,296)
Capital Outlay	55,155

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).

Equipment Note Payable	5,029
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Loan proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets	<u>(18,763)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (7,681)</u></u>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN
PROPRIETARY FUND
STATEMENT OF NET ASSETS
FEBRUARY 28, 2006

	<u>ASSETS</u>	<u>WATER FUND</u>
<u>CURRENT ASSETS</u>		
Cash		\$ 33,157
Accounts Receivable		8,555
Inventory		<u>2,000</u>
Total Current Assets		<u>\$ 43,712</u>
<u>RESTRICTED ASSETS</u>		
Deposits		
Bond and Interest Redemption Fund		\$ 25,000
Bond Reserve Account		37,433
Special Purpose Account		<u>5,001</u>
Total Restricted Assets		<u>\$ 67,434</u>
<u>CAPITAL ASSETS</u>		
Buildings		\$ 29,337
Machinery and Equipment		50,643
System Infrastructure		<u>1,184,489</u>
		\$ 1,264,469
Less Accumulated Depreciation		<u>540,829</u>
Net Capital Assets		<u>\$ 723,640</u>
TOTAL ASSETS		<u><u>\$ 834,786</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN
PROPRIETARY FUND
STATEMENT OF NET ASSETS
FEBRUARY 28, 2006

	<u>WATER FUND</u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 4,825
Due to General Fund	554
Revenue Bonds Payable - Current Portion	<u>8,000</u>
Total Current Liabilities	\$ 13,379
 <u>LONG-TERM LIABILITIES</u>	
Revenue Bonds Payable - Net of Current Portion	<u>324,000</u>
 TOTAL LIABILITIES	 <u>\$ 337,379</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 391,640
Restricted	67,434
Unrestricted	<u>38,333</u>
Total Net Assets	<u>\$ 497,407</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 834,786</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED FEBRUARY 28, 2006

	<u>WATER FUND</u>
<u>OPERATING REVENUES</u>	
Charges for Services	\$ 62,928
Other Revenue	<u>24,023</u>
Total Operating Revenues	<u>\$ 86,951</u>
<u>OPERATING EXPENSES</u>	
Administrative and General	\$ 9,661
Plant	<u>71,394</u>
Total Operating Expenses	<u>\$ 81,055</u>
Operating Income (Loss)	<u>\$ 5,896</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Revenue	\$ 2,083
Interest Expense	<u>(20,549)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (18,466)</u>
Change in Net Assets	\$ (12,570)
<u>TOTAL NET ASSETS</u> - Beginning of Year	<u>509,977</u>
<u>TOTAL NET ASSETS</u> -End of Year	<u><u>\$ 497,407</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
YEAR ENDED FEBRUARY 28, 2006

	<u>WATER FUND</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 61,032
Cash Payments to Suppliers for Goods and Services	(32,724)
Cash Payments to Employees for Services	(13,101)
Other Operating Revenues	<u>24,023</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 39,230</u>
Cash Flows from Capital and Related Financing Activities:	
Payment of Revenue Bond	\$ (7,000)
Interest Payments	<u>(20,549)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>\$ (27,549)</u>
Cash Flows from Investing Activities:	
Interest on Investments	<u>\$ 2,083</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 13,764
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>86,827</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u><u>\$ 100,591</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
YEAR ENDED FEBRUARY 28, 2006

	<u>WATER FUND</u>
<u>RECONCILIATION OF OPERATING INCOME</u>	
<u>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>	
Operating Income (Loss)	\$ 5,896
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating Activities	
Depreciation	\$ 31,661
(Increase) Decrease in Current Assets	
Accounts Receivable	(1,896)
Increase (Decrease) in Current Liabilities	
Accounts Payable	4,012
Salaries Payable	(443)
	<hr/>
Total Adjustments	\$ 33,334
	<hr/>
NET CASH PROVIDED (USED) BY	
OPERATING ACTIVITIES	<u>\$ 39,230</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of Ellsworth, Michigan, is a general law village incorporated under the General Village Act of 1895. As required by generally accepted accounting principles, these financial statements present all activities of the Village. Entities for which the Village is considered to be financially accountable are called component units. The Village has no component units.

B. Government-wide and Fund Financial Statements

The Village adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

The government-wide focus is more on the sustainability of the Village as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Village are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The Village of Ellsworth reports the following major governmental funds:

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the Village by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The *Recreation Fund* is used to account for the financial activity of the recreation programs.

The Village of Ellsworth reports the following major proprietary fund:

The *Water Fund* records financial activity of the water system which provides water to customers.

Additionally the Village of Ellsworth reports the following fund types:

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The *proprietary funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

the Water Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The investment policy adopted by this Village states that the Village Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- a. Bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the Government National Mortgage Association.
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- c. In commercial paper rated prime at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service. In mutual funds composed of investment vehicles which are legal for direct investment of local units of government in Michigan.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686.54789, 15 U.S.C.80a-1 to U.S.C.80a-3 and 80e-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the village treasurer. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- h. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.11 to 129.118.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. Village taxes are levied and due July 1, and become delinquent after September 14. Village property tax revenues are recognized when they become both measurable and available for use to finance Village operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of the Village of Ellsworth totaled \$7,628,253, on which ad valorem taxes levied consisted of 11.00 mills for the Village of Ellsworth operating purposes.

3. *Inventories and Prepaid Items*

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

4. *Restricted Assets*

The \$67,434 restricted assets in the Water Fund represents monies required under the bond ordinance for the following:

<u>ITEM</u>	<u>ACTUAL</u>	<u>AMOUNT REQUIRED</u>
Bond and Interest Redemption Fund	\$ 25,000	\$ 5,084
Bond Reserve Account	37,433	33,000
Special Purpose Account	5,001	5,000
Total	\$ 67,434	\$ 43,084

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	20-50
Building improvements	20
Land Improvements	20
Public domain infrastructure	50
System infrastructure	30
Equipment	5-10

6. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act." A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end.

The appropriated budget is prepared by fund and activity. The Village Council exercises budgetary control over expenditures.

The Village follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to March 1, the clerk submits, to the Village Council, proposed operating budgets for all funds of the Village for the fiscal year
2. The Village Council adopts a resolution approving the budgets.
3. All transfers of budget amounts between departments within any fund and any revisions that alter the total expenditures of any fund must be approved by the Village Council.
4. During the year, the budget is monitored and amendments to the budget are made when it is deemed necessary.
5. Budget amounts as presented are as originally adopted on February 13, 2005, or as amended by the Village Council from time to time throughout the year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The Village's deposits are owned by several of the Village's funds. Bank deposits are in Charlevoix State Bank, Charlevoix and Citizens Bank, Charlevoix. At year-end, the carrying amount of the Village's deposits was \$230,258 and the bank balance was \$225,849. Of the bank balance, \$220,958 was covered by Federal depository insurance and \$4,891 was uninsured and uncollateralized.

Investment rate risk. The Village will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Village's cash requirement.

Foreign currency risk. The Village is not authorized to invest in investments, which have this type of risk.

Credit risk. The Village will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Village's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Village will do business in accordance with the Village's investment policy.

Concentration of credit risk. The Village will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of February 28, 2006, of the government's bank balance of \$225,849, \$4,891 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes investments that are insured or registered, or securities held by the Village or the Village's agent in the Village's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Village's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Village's name. At year end, the Village held no investments.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

B. Receivables

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Major Street	Local Street	Recreation	Water	Total
Receivables						
Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,555	\$ 8,555
Intergovernmental	8,053	8,732	11,368	0	0	28,153
Receivables	\$ 8,053	\$ 8,732	\$ 11,368	\$ 0	\$ 8,555	\$ 36,708

By ordinance, the Village can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 17	\$ 36,392	\$ 0	\$ 36,409
Capital assets, being depreciated				
Land Improvements	\$ 19,058	\$ 0	\$ 0	\$ 19,058
Buildings	109,000	0	0	109,000
Machinery and Equipment	119,399	18,763	0	138,162
Total capital assets, being depreciated	\$ 247,457	\$ 18,763	\$ 0	266,220
Less accumulated depreciation for:				
Land Improvements	\$ 476	\$ 953	\$ 0	\$ 1,429
Buildings	54,530	2,420	0	56,950
Machinery and Equipment	99,419	4,923	0	104,342
Total accumulated depreciation	\$ 154,425	\$ 8,296	\$ 0	\$ 162,721
Total capital assets, being depreciated, net	\$ 93,032	\$ 10,467	\$ 0	\$ 103,499
Governmental activities capital assets, net	\$ 93,049	\$ 46,859	\$ 0	\$ 139,908

Business-Type Activities

Capital assets, being depreciated				
Buildings	\$ 29,337	\$ 0	\$ 0	\$ 29,337
Machinery and Equipment	50,643	0	0	50,643
System Infrastructure	1,184,489	0	0	1,184,489
Total capital assets, being depreciated	\$ 1,264,469	\$ 0	\$ 0	\$ 1,264,469
Less accumulated depreciation	509,168	31,661	0	540,829
Business-type activities capital assets, net	\$ 755,301	\$ (31,661)	\$ 0	\$ 723,640

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ <u>8,296</u>
Business-type activities:	
Water	\$ <u>31,661</u>

Construction Commitments:

None.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at February 28, 2006, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 3,807	\$ 0
Special Revenue Funds		
Major Street	0	5,950
Local Street	5,950	3,253
Enterprise Funds		
Water and Sewer	0	554
	\$ <u>9,757</u>	\$ <u>9,757</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at February 28, 2006, are expected to be repaid within one year.

Interfund Transfers as of February 28, 2006, were:

<u>Primary Government</u>	<u>IN</u>	<u>OUT</u>
General Fund	\$ 0	\$ 1,700
Major Street Fund	0	6,500
Local Street Fund	6,500	0
Recreation Fund	1,700	0
	\$ <u>8,200</u>	\$ <u>8,200</u>

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

F. Long-Term Debt

1. Primary Government

The following is a summary of debt transactions of the Village of Ellsworth for the year ended February 28, 2006:

	REVENUE BONDS	EQUIPMENT NOTES PAYABLE	TOTAL
Debt Payable at March 1, 2005	\$ 339,000	\$ 1,025	\$ 340,025
New Debt Incurred	0	18,763	18,763
Debt Retired	(7,000)	(5,029)	(12,029)
Debt Payable at February 28, 2006	\$ 332,000	\$ 14,759	\$ 346,759
Due within one year	\$ 8,000	\$ 5,526	\$ 13,526

Debt payable at February 28, 2006 is comprised of the following individual issues:

Individual Amounts:

\$18,763 Note for Equipment to Charlevoix State Bank Due in Monthly Installments of \$503 through September 10, 2008, Interest at 4.10%	\$ 14,759
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Revenue Bonds:

\$410,000 Water Supply System Revenue Bonds Due in Annual Installments of \$8,000 to \$30,000 through September 1, 2025; Interest at 6.125%	332,000
	\$ 346,759

The annual requirements to amortize these debts outstanding other than compensated absences as of February 28, 2006, including interest payments of \$251,096, are as follows:

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

<u>YEAR</u> <u>ENDING FEBRUARY 28,</u>	<u>EQUIPMENT</u> <u>NOTES PAYABLE</u>		<u>REVENUE</u> <u>BONDS</u>		<u>TOTAL</u>
	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	
2007	\$ 508	\$ 5,526	\$ 20,089	\$ 8,000	\$ 34,123
2008	273	5,761	19,599	8,000	33,633
2009	48	3,472	19,079	9,000	31,599
2010	0	0	18,528	9,000	27,528
2011-2015	0	0	82,687	60,000	142,687
2016-2020	0	0	60,454	86,000	146,454
2021-2025	0	0	28,912	122,000	150,912
2026	0	0	919	30,000	30,919
	<u>\$ 829</u>	<u>\$ 14,759</u>	<u>\$ 250,267</u>	<u>\$ 332,000</u>	<u>\$ 597,855</u>

IV. OTHER INFORMATION

A. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Village participates in a pool of municipalities with the State of Michigan for self-insuring worker's compensation insurance through Michigan Municipal Worker's Compensation Fund. The Village pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Village has not been informed of any special assessments being required for the current year or the three prior years.

In addition, the Village carries commercial insurance to cover property and casualty, crime, general liability, errors and omissions, and fidelity bonds.

B. Interest Income and Expense

For the year ended February 28, 2006, total interest/investment income was \$3,804 and total interest expense was \$21,076.

C. Due from Other Governments

Amounts due from other governments consists of \$8,053 in state-shared revenues and \$20,100 in Act 51 revenues.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

D. Reinstatement

The beginning net assets of the governmental activities on the statement of activities was increased by \$8,639 to correct for prior year accrual of state-shared revenues.

The beginning fund balance of the General Fund was also increased by \$8,639 to correct for prior year accrual of state-shared revenues.

VILLAGE OF ELLSWORTH, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED FEBRUARY 28, 2006

	GENERAL FUND				MAJOR STREET FUND				LOCAL STREET FUND				RECREATION FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES																
Taxes	\$ 80,000	\$ 80,000	\$ 84,772	\$ 4,772	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Licenses and Permits	3,000	3,000	500	(2,500)	0	0	0	0	0	0	0	0	0	0	0	0
State Grants	47,825	48,825	52,434	3,609	53,000	53,000	48,407	(4,593)	14,000	14,000	22,550	8,550	0	0	0	0
Contributions from Local Units	0	0	0	0	0	0	0	0	0	0	0	0	3,500	3,500	3,500	0
Charges for Services	0	0	0	0	0	0	0	0	0	0	0	0	500	500	1,400	900
Interest and Rents	43,550	46,150	59,237	13,087	100	100	196	96	50	50	35	(15)	0	0	0	0
Other Revenues	200	2,800	3,955	1,155	0	0	1,472	1,472	0	0	406	406	400	400	465	65
Total Revenues	\$ 174,575	\$ 180,775	\$ 200,898	\$ 20,123	\$ 53,100	\$ 53,100	\$ 50,075	\$ (3,025)	\$ 14,050	\$ 14,050	\$ 22,991	\$ 8,941	\$ 4,400	\$ 4,400	\$ 5,365	\$ 965
EXPENDITURES																
Legislative	\$ 12,250	\$ 12,250	\$ 10,117	\$ 2,133	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Government																
Clerk	8,705	8,705	7,079	1,626	0	0	0	0	0	0	0	0	0	0	0	0
Treasurer	3,880	3,880	3,454	426	0	0	0	0	0	0	0	0	0	0	0	0
Building and Grounds	77,171	118,371	136,740	(18,369)	0	0	0	0	0	0	0	0	0	0	0	0
Public Safety	8,619	8,619	7,828	791	0	0	0	0	0	0	0	0	0	0	0	0
Public Works	17,000	17,000	14,503	2,497	39,400	69,400	73,889	(4,489)	17,850	17,850	34,921	(17,071)	0	0	0	0
Community and Economic Development	3,400	3,400	2,649	751	0	0	0	0	0	0	0	0	0	0	0	0
Health and Welfare	3,500	3,500	3,500	0	0	0	0	0	0	0	0	0	0	0	0	0
Culture and Recreation	18,600	19,600	15,951	3,649	0	0	0	0	0	0	0	0	6,750	6,750	7,270	(520)
Other Functions	15,050	15,050	15,441	(391)	0	0	0	0	0	0	0	0	0	0	0	0
Debt Service	4,700	4,700	5,556	(856)	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditures	\$ 172,875	\$ 215,075	\$ 222,818	\$ (7,743)	\$ 39,400	\$ 69,400	\$ 73,889	\$ (4,489)	\$ 17,850	\$ 17,850	\$ 34,921	\$ (17,071)	\$ 6,750	\$ 6,750	\$ 7,270	\$ (520)
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,700	\$ (34,300)	\$ (21,920)	\$ 12,380	\$ 13,700	\$ (16,300)	\$ (23,814)	\$ (7,514)	\$ (3,800)	\$ (3,800)	\$ (11,930)	\$ (8,130)	\$ (2,350)	\$ (2,350)	\$ (1,905)	\$ 445
OTHER FINANCING SOURCES (USES)																
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,700	\$ 6,700	\$ 6,500	\$ (200)	\$ 1,700	\$ 1,700	\$ 1,700	\$ 0
Transfers Out	(1,700)	(1,700)	(1,700)	0	(6,700)	(6,700)	(6,500)	200	0	0	0	0	0	0	0	0
Loan Proceeds	0	0	18,763	18,763	0	0	0	0	0	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	\$ (1,700)	\$ (1,700)	\$ 17,063	\$ 18,763	\$ (6,700)	\$ (6,700)	\$ (6,500)	\$ 200	\$ 6,700	\$ 6,700	\$ 6,500	\$ (200)	\$ 1,700	\$ 1,700	\$ 1,700	\$ 0
Net Change in Fund Balance	\$ 0	\$ (36,000)	\$ (4,857)	\$ 31,143	\$ 7,000	\$ (23,000)	\$ (30,314)	\$ (7,314)	\$ 2,900	\$ 2,900	\$ (5,430)	\$ (8,330)	\$ (650)	\$ (650)	\$ (205)	\$ 445
FUND BALANCE - Beginning of Year	92,000	126,000	135,154	9,154	30,000	42,445	42,445	0	2,500	5,795	5,795	0	1,810	1,810	1,971	161
FUND BALANCE - End of Year	\$ 92,000	\$ 90,000	\$ 130,297	\$ 40,297	\$ 37,000	\$ 19,445	\$ 12,131	\$ (7,314)	\$ 5,400	\$ 8,695	\$ 365	\$ (8,330)	\$ 1,160	\$ 1,160	\$ 1,766	\$ 606

VILLAGE OF ELLSWORTH, MICHIGAN

GENERAL FUND
COMPARATIVE BALANCE SHEET

FEBRUARY 28,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 128,055	\$ 129,548
Taxes Receivable	0	338
Due from Other Governments	8,053	0
Due from Other Funds		
Water Fund	554	554
Local Streets	3,253	3,253
TOTAL ASSETS	<u>\$ 139,915</u>	<u>\$ 133,693</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 3,976	\$ 2,386
Payroll Withholdings Payable	465	412
Accrued Wages	5,177	4,380
Total Liabilities	\$ 9,618	\$ 7,178
<u>FUND BALANCE</u>		
Unreserved	130,297	126,515
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 139,915</u>	<u>\$ 133,693</u>

VILLAGE OF ELLSWORTH, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED FEBRUARY 28, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>			
Taxes	\$ 80,000	\$ 84,772	\$ 80,029
Licenses and Permits	3,000	500	390
Federal Grant	0	0	3,515
State Grants	48,825	52,434	56,951
Contributions from Local Units	0	0	250
Interest and Rents	46,150	59,237	43,619
Other Revenues	2,800	3,955	20,148
Total Revenues	<u>\$ 180,775</u>	<u>\$ 200,898</u>	<u>\$ 204,902</u>
<u>EXPENDITURES</u>			
Legislative	\$ 12,250	\$ 10,117	\$ 11,695
General Government	130,956	147,273	87,382
Public Safety	8,619	7,828	1,720
Public Works	17,000	14,503	15,293
Community and Economic Development	3,400	2,649	2,679
Health and Welfare	3,500	3,500	3,500
Recreation and Cultural	19,600	15,951	40,641
Other Functions	15,050	15,441	15,055
Debt Service	4,700	5,556	4,139
Total Expenditures	<u>\$ 215,075</u>	<u>\$ 222,818</u>	<u>\$ 182,104</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (34,300)</u>	<u>\$ (21,920)</u>	<u>\$ 22,798</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	\$ (1,700)	\$ (1,700)	\$ (1,700)
Loan Proceeds	<u>0</u>	<u>18,763</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>\$ (1,700)</u>	<u>\$ 17,063</u>	<u>\$ (1,700)</u>
Net Change in Fund Balance	\$ (36,000)	\$ (4,857)	\$ 21,098
<u>FUND BALANCE</u> - Beginning of Year	<u>126,000</u>	<u>135,154</u>	<u>105,417</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 90,000</u>	<u>\$ 130,297</u>	<u>\$ 126,515</u>

VILLAGE OF ELLSWORTH, MICHIGAN

GENERAL FUND
ANALYSIS OF REVENUES

YEAR ENDED FEBRUARY 28, 2006

REVENUES

Taxes

Current Taxes	\$ 83,910	
Property Tax Administration Fee	862	
Total Taxes		\$ 84,772

Licenses and Permits

Zoning Permits and Fees	\$ 250	
Rezoning Permits	25	
Zoning Board of Appeal	225	
Total Licenses and Permits		500

State Grants

Sales Tax	\$ 47,410	
Telecommunications Right of Way	3,062	
Liquor Licenses	962	
Arts and Cultures Grant	1,000	
Total State Grants		52,434

Interest and Rents

Interest	\$ 1,490	
Equipment Rental	28,775	
Communication Tower Rental	50	
Land Rental	2,600	
Park Rental	26,322	
Total Interest and Rents		59,237

Other Revenue

Donations from Private Sources	\$ 2,650	
Refunds	35	
Miscellaneous	1,270	
Total Other Revenues		3,955

TOTAL REVENUES	\$ 200,898
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OTHER FINANCING SOURCES

Loan Proceeds	18,763
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TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 219,661</u>
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VILLAGE OF ELLSWORTH, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES

YEAR ENDED FEBRUARY 28, 2006

EXPENDITURES

Legislative

Village Council

Personal Services

Salaries and Wages \$ 2,290

Other Services and Charges

Professional Services 6,580

Printing and Publishing 245

Memberships and Dues 561

Miscellaneous 441

Total Legislative \$ 10,117

General Government

Clerk's Office

Personal Services

Salaries and Wages \$ 5,000

Supplies

Office Supplies 1,119

Other Services and Charges

Communication 614

Education 171

Miscellaneous 175 \$ 7,079

Treasurer's Office

Personal Services

Salaries and Wages \$ 2,997

Supplies

Office Supplies 322

Other Services and Charges

Contracted Services 135 3,454

Building and Grounds

Personal Services

Salaries and Wages \$ 40,158

Supplies

Operating Supplies 7,904

Other Services and Charges

Repairs and Maintenance 18,510

VILLAGE OF ELLSWORTH, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES

YEAR ENDED FEBRUARY 28, 2006

Contracted Services	1,319		
Laundry	493		
Communication	15		
Snow Removal	3,002		
Capital Outlay	<u>65,339</u>	<u>136,740</u>	
Total General Government			147,273
Public Safety			
Police Department			
Personal Services			
Salaries and Wages		\$ 2,047	
Supplies			
Operating Supplies		248	
Other Services and Charges			
Communication		673	
Repair and Maintenance		460	
Capital Outlay		<u>4,400</u>	
Total Public Safety			7,828
Public Works			
Department of Public Works			
Hydrant Rental		\$ 5,000	
Street Lighting			
Other Services and Charges			
Public Utilities		<u>9,503</u>	
Total Public Works			14,503
Community and Economic Development			
Planning Commission			
Supplies			
Operating Supplies		\$ 65	
Other Services and Charges			
Professional Services		294	
Contracted Services		<u>2,290</u>	
Total Community and Economic Development			2,649

VILLAGE OF ELLSWORTH, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES

YEAR ENDED FEBRUARY 28, 2006

Health and Welfare

Ambulance

Other Services and Charges

Contracted Services

3,500

Recreation and Cultural

Parks

Personal Services

Salaries and Wages

\$ 2,921

Supplies

Operating Supplies

655

Other Services and Charges

Utilities

3,009

Repair and Maintenance

1,422

Communication

572

Printing and Publishing

143

Contracted Services

4,710

Miscellaneous - Other

2,438

Capital Outlay

81

Total Recreation and Cultural

15,951

Other Functions

Fringe Benefits

Social Security and Medicare

\$ 2,203

Health and Life Insurance

1,100

Worker's Compensation

1,812

\$ 5,115

Insurance and Bonds

10,326

Total Other Functions

15,441

Debt Service

Equipment Contract Principal

\$ 5,029

Interest Charges

527

Total Debt Service

5,556

TOTAL EXPENDITURES

\$ 222,818

VILLAGE OF ELLSWORTH, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES

YEAR ENDED FEBRUARY 28, 2006

OTHER FINANCING USES

Transfers Out

Recreation Fund

1,700

TOTAL EXPENDITURES AND
OTHER FINANCING USES

\$ 224,518

VILLAGE OF ELLSWORTH, MICHIGAN

MAJOR STREET FUND
COMPARATIVE BALANCE SHEET

FEBRUARY 28,

	2006	2005
<u>ASSETS</u>		
Cash	\$ 12,717	\$ 34,058
Due from Other Governmental Units	8,732	15,085
TOTAL ASSETS	<u>\$ 21,449</u>	<u>\$ 49,143</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 3,368	\$ 548
Due to Other Funds	5,950	6,150
TOTAL LIABILITIES	\$ 9,318	\$ 6,698
<u>FUND BALANCE</u>		
Unreserved	12,131	42,445
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 21,449</u>	<u>\$ 49,143</u>

VILLAGE OF ELLSWORTH, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED FEBRUARY 28, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>			
State Grants			
Act 51 Distributions	\$ 53,000	\$ 48,407	\$ 56,688
Interest and Rents			
Interest	100	196	133
Miscellaneous	0	1,472	20
Total Revenues	<u>\$ 53,100</u>	<u>\$ 50,075</u>	<u>\$ 56,841</u>
<u>EXPENDITURES</u>			
Public Works			
Routine Maintenance			
Personal Services			
Salaries and Wages	\$ 2,000	\$ 2,008	\$ 1,752
Employee Benefits	140	153	134
Supplies			
Materials and Supplies	2,500	2,095	2,627
Other Services and Charges			
Contract Labor and Services	32,000	26,715	11,569
Repairs and Maintenance	2,000	2,167	1,706
Equipment Rentals	2,500	3,650	2,752
Winter Maintenance			
Personal Services			
Salaries and Wages	5,000	6,299	4,282
Employee Benefits	360	482	349
Supplies			
Materials and Supplies	3,500	2,833	6,183
Other Services and Charges			
Contract Labor and Services	500	751	240
Equipment Rentals	18,000	23,592	14,637

VILLAGE OF ELLSWORTH, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED FEBRUARY 28, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
Signs and Signals			
Supplies			
Materials and Supplies	200	891	245
Other Services and Charges			
Utilities	100	88	92
Administration and General			
Personal Services			
Salaries and Wages	300	300	300
Other Services and Charges			
Audit and Other	300	1,865	300
	<u>300</u>	<u>1,865</u>	<u>300</u>
Total Expenditures	\$ 69,400	\$ 73,889	\$ 47,168
Excess (Deficiency) of Revenues Over Expenditures	\$ (16,300)	\$ (23,814)	\$ 9,673
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out			
Local Street Fund	(6,700)	(6,500)	(14,150)
Net Change in Fund Balance	\$ (23,000)	\$ (30,314)	\$ (4,477)
<u>FUND BALANCE</u> - Beginning of Year	42,445	42,445	46,922
<u>FUND BALANCE</u> - End of Year	<u>\$ 19,445</u>	<u>\$ 12,131</u>	<u>\$ 42,445</u>

VILLAGE OF ELLSWORTH, MICHIGAN

LOCAL STREET FUND
COMPARATIVE BALANCE SHEET

FEBRUARY 28,

	2006	2005
<u>ASSETS</u>		
Due from Other Governments	\$ 11,368	\$ 3,321
Due from Other Funds	5,950	6,150
TOTAL ASSETS	<u>\$ 17,318</u>	<u>\$ 9,471</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Bank Overdraft	\$ 12,871	\$ 43
Accounts Payable	829	380
Due to Other Funds		
General Fund	3,253	3,253
Total Liabilities	\$ 16,953	\$ 3,676
<u>FUND BALANCE</u>		
Unreserved	365	5,795
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 17,318</u>	<u>\$ 9,471</u>

VILLAGE OF ELLSWORTH, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED FEBRUARY 28, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>			
State Grants			
Act 51 Distributions	\$ 14,000	\$ 22,550	\$ 15,027
Interest and Rents			
Interest	50	35	57
Miscellaneous	0	406	0
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 14,050	\$ 22,991	\$ 15,084
	<hr/>	<hr/>	<hr/>
<u>EXPENDITURES</u>			
Public Works			
Routine Maintenance			
Personal Services			
Salaries and Wages	\$ 1,700	\$ 1,592	\$ 1,745
Fringe Benefits	125	122	134
Supplies			
Operating Supplies	800	641	1,234
Other Services and Charges			
Equipment Rental	1,000	1,217	917
Contracted Services	9,400	19,136	15,656
Winter Maintenance			
Personal Services			
Salaries and Wages	2,000	2,449	2,956
Fringe Benefits	125	190	234
Supplies			
Operating Supplies	1,200	860	1,597
Other Services and Charges			
Equipment Rental	600	7,864	4,879
Contracted Services	200	250	80
Signs and Signals			
Supplies			
Materials and Supplies	100	0	0

VILLAGE OF ELLSWORTH, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED FEBRUARY 28, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
Administration and General			
Personal Services			
Salaries and Wages	300	300	300
Other Services and Charges			
Audit and Other	300	300	300
	<u>300</u>	<u>300</u>	<u>300</u>
Total Expenditures	<u>\$ 17,850</u>	<u>\$ 34,921</u>	<u>\$ 30,032</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (3,800)	\$ (11,930)	\$ (14,948)
<u>OTHER FINANCING SOURCES</u>			
Transfers In			
Major Street Fund	<u>6,700</u>	<u>6,500</u>	<u>14,150</u>
Net Change in Fund Balance	\$ 2,900	\$ (5,430)	\$ (798)
<u>FUND BALANCE</u> - Beginning of Year	<u>5,795</u>	<u>5,795</u>	<u>6,593</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 8,695</u>	<u>\$ 365</u>	<u>\$ 5,795</u>

VILLAGE OF ELLSWORTH, MICHIGAN

RECREATION FUND
COMPARATIVE BALANCE SHEET

FEBRUARY 28,

		<u>2006</u>	<u>2005</u>
	<u>ASSETS</u>		
Cash		<u>\$ 1,766</u>	<u>\$ 1,971</u>
	<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		\$ 0	\$ 0
<u>FUND BALANCE</u>			
Reserved for Recreation Programs		<u>1,766</u>	<u>1,971</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>\$ 1,766</u>	<u>\$ 1,971</u>

VILLAGE OF ELLSWORTH, MICHIGAN

RECREATION FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED FEBRUARY 28, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>			
Contributions from Local Units			
Banks Township	\$ 3,500	\$ 3,500	\$ 3,500
Charges for Services			
Recreation Entry Fees	500	1,400	671
Other Revenues			
Contributions and Field Rental	400	400	400
Miscellaneous	0	65	0
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 4,400</u>	<u>\$ 5,365</u>	<u>\$ 4,571</u>
<u>EXPENDITURES</u>			
Summer Recreation			
Supplies			
Uniforms	\$ 1,300	\$ 1,670	\$ 954
Athletic Supplies	800	765	539
Other Services and Charges			
Contracted Services			
Recreation Directors	1,500	1,400	1,500
Umpires	1,000	950	680
Tennis Instructor	0	650	0
Transportation and Expense	600	600	595
Field Maintenance	750	288	276
Miscellaneous			
League Dues and Fees	100	40	30
Field Set Up	500	805	352
Other	200	102	36
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 6,750</u>	<u>\$ 7,270</u>	<u>\$ 4,962</u>

VILLAGE OF ELLSWORTH, MICHIGAN

RECREATION FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED FEBRUARY 28, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	
	<u>2006</u>	<u>2006</u>	<u>2005</u>
Excess of (Deficiency) Revenues Over Expenditures	\$ (2,350)	\$ (1,905)	\$ (391)
<u>OTHER FINANCING SOURCES</u>			
Transfers In			
General Fund	<u>1,700</u>	<u>1,700</u>	<u>1,700</u>
Net Change in Fund Balance	\$ (650)	\$ (205)	\$ 1,309
<u>FUND BALANCE</u> - Beginning of Year	<u>1,810</u>	<u>1,971</u>	<u>662</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 1,160</u>	<u>\$ 1,766</u>	<u>\$ 1,971</u>

VILLAGE OF ELLSWORTH, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF NET ASSETS

FEBRUARY 28,

	<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
<u>CURRENT ASSETS</u>			
Cash		\$ 33,157	\$ 19,836
Accounts Receivable		8,555	6,659
Inventory		2,000	2,000
Total Current Assets		<u>\$ 43,712</u>	<u>\$ 28,495</u>
<u>RESTRICTED ASSETS</u>			
Deposits			
Bond and Interest Redemption Fund		\$ 25,000	\$ 25,000
Bond Reserve Account		37,433	36,990
Special Purpose Account		5,001	5,001
Total Restricted Assets		<u>\$ 67,434</u>	<u>\$ 66,991</u>
<u>CAPITAL ASSETS</u>			
Buildings		\$ 29,337	\$ 29,337
Machinery and Equipment		50,643	50,643
System Infrastructure		1,184,489	1,184,489
Total Capital Assets		<u>\$ 1,264,469</u>	<u>\$ 1,264,469</u>
Less Accumulated Depreciation		<u>540,829</u>	<u>509,168</u>
Net Capital Assets		<u>\$ 723,640</u>	<u>\$ 755,301</u>
TOTAL ASSETS		<u><u>\$ 834,786</u></u>	<u><u>\$ 850,787</u></u>

VILLAGE OF ELLSWORTH, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF NET ASSETS

FEBRUARY 28,

	<u>2006</u>	<u>2005</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 4,825	\$ 813
Salaries Payable	0	443
Due to General Fund	554	554
Revenue Bonds Payable - Current Portion	8,000	7,000
	<hr/>	<hr/>
Total Current Liabilities	\$ 13,379	\$ 8,810
 <u>LONG-TERM LIABILITIES</u>		
Revenue Bonds Payable - Net of Current Portion	324,000	332,000
	<hr/>	<hr/>
Total Liabilities	\$ 337,379	\$ 340,810
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	\$ 391,640	\$ 416,301
Restricted	67,434	66,991
Unrestricted	38,333	26,685
	<hr/>	<hr/>
Total Net Assets	\$ 497,407	\$ 509,977
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 834,786</u>	<u>\$ 850,787</u>

VILLAGE OF ELLSWORTH, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

YEAR ENDED FEBRUARY 28,

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Charges for Services		
Sales	\$ 62,928	\$ 58,352
Other Revenue		
Hydrant Rental	5,000	5,000
Equipment Rental	7,548	5,576
New Service Fees	500	0
Repairs	467	717
DEQ Grant	0	9,252
Wellhead Protection Grant	3,716	3,800
Water Main Extension	6,555	0
Miscellaneous	237	0
	<hr/>	<hr/>
Total Operating Revenues	\$ 86,951	\$ 82,697
	<hr/>	<hr/>
<u>OPERATING EXPENSES</u>		
Administration and General		
Personal Services		
Salaries and Wages	\$ 5,000	\$ 5,310
Fringe Benefits	382	406
Supplies		
Office and Computer Supplies	600	659
Other Services and Charges		
Professional Fees	1,780	1,500
Telephone	1,899	2,169
Miscellaneous	0	348
Plant		
Personal Services		
Salaries and Wages	7,658	7,043
Fringe Benefits	613	546
Other Services and Charges		
Professional Services	16,120	14,754
Operating Supplies and Repairs	11,727	13,964
Utilities	2,706	3,268

VILLAGE OF ELLSWORTH, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

YEAR ENDED FEBRUARY 28,

	<u>2006</u>	<u>2005</u>
Capital Outlay	677	0
Miscellaneous	232	664
Depreciation	31,661	28,694
	<hr/>	<hr/>
Total Operating Expenses	\$ 81,055	\$ 79,325
	<hr/>	<hr/>
Operating Income (Loss)	\$ 5,896	\$ 3,372
	<hr/>	<hr/>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest Income	\$ 2,083	\$ 1,771
Interest Expense	(20,549)	(20,978)
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	\$ (18,466)	\$ (19,207)
	<hr/>	<hr/>
Change in Net Assets	\$ (12,570)	\$ (15,835)
	<hr/>	<hr/>
<u>NET ASSETS</u> - Beginning of Year	509,977	509,977
	<hr/>	<hr/>
<u>NET ASSETS</u> - End of Year	\$ 497,407	\$ 494,142
	<hr/> <hr/>	<hr/> <hr/>

VILLAGE OF ELLSWORTH, MICHIGAN

WATER FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED FEBRUARY 28,

	<u>2006</u>	<u>2005</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 61,032	\$ 57,586
Cash Payments for Suppliers for Goods and Services	(32,724)	(37,123)
Cash Payments for Employees for Services	(13,101)	(13,416)
Other Operating Revenues	24,023	24,345
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$ 39,230	\$ 31,392
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Payment of Revenue Bond	\$ (7,000)	\$ (7,000)
Principal Payments - Equipment Contract	0	(10,783)
Addition To Water System	0	(28,317)
Interest Payments	(20,549)	(20,978)
	<hr/>	<hr/>
Net Cash Used for Capital and Related Financing Activities	\$ (27,549)	\$ (67,078)
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest on Investments	\$ 2,083	\$ 1,771
	<hr/>	<hr/>
Net Increase in Cash and Cash Equivalents	\$ 13,764	\$ (33,915)
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	86,827	120,742
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 100,591</u>	<u>\$ 86,827</u>

VILLAGE OF ELLSWORTH, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED FEBRUARY 28,

	<u>2006</u>	<u>2005</u>
<u>RECONCILIATION OF OPERATING INCOME</u> <u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating Income (Loss)	<u>\$ 5,896</u>	<u>\$ 3,372</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	\$ 31,661	\$ 28,694
(Increase) Decrease in Current Assets		
Accounts Receivable	(1,896)	(766)
Increase (Decrease) in Current Liabilities		
Accounts Payable	4,012	203
Salaries Payable	(443)	(111)
Total Adjustments	<u>\$ 33,334</u>	<u>\$ 28,020</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 39,230</u>	<u>\$ 31,392</u>

VILLAGE OF ELLSWORTH, MICHIGAN

WATER SUPPLY SYSTEM REVENUE BONDS PAYABLE
FEBRUARY 28, 2006

<u>NAME OF ISSUE</u>	Water Supply System Revenue Bonds		
<u>DATE OF ISSUE</u>	November 1, 1985		
<u>PURPOSE</u>	To finance a portion of the cost of acquiring and constructing improvements to the Village's Water Supply System.		
<u>INTEREST PAYABLE</u>	September 1 and March 1 of each year		
<u>AMOUNT OF ISSUE</u>			\$ 410,000
<u>AMOUNT REDEEMED</u>			
Prior Years	\$ 71,000		
Current Year	<u>7,000</u>		<u>78,000</u>
<u>BALANCE OUTSTANDING</u> - February 28, 2006			<u>\$ 332,000</u>
<u>CALL PROVISIONS</u>	Principal installments are subject to prepayment prior to maturity, in inverse chronological order, at the option of the Village on any interest payment date on or after September 1, 1986, at par and accrued interest to date fixed for prepayment.		
<u>RATE OF INTEREST</u>	6.125% per annum on all maturities		

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
September 1, 2006	\$ 8,000	\$ 10,167	\$ 18,167
March 1, 2007		9,922	9,922
September 1, 2007	8,000	9,922	17,922
March 1, 2008		9,677	9,677
September 1, 2008	9,000	9,677	18,677
March 1, 2009		9,402	9,402

VILLAGE OF ELLSWORTH, MICHIGAN

WATER SUPPLY SYSTEM REVENUE BONDS PAYABLE

FEBRUARY 28, 2006

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
September 1, 2009	9,000	9,402	18,402
March 1, 2010		9,126	9,126
September 1, 2010	10,000	9,126	19,126
March 1, 2011		8,820	8,820
September 1, 2011	11,000	8,820	19,820
March 1, 2012		8,483	8,483
September 1, 2012	12,000	8,483	20,483
March 1, 2013		8,116	8,116
September 1, 2013	13,000	8,116	21,116
March 1, 2014		7,717	7,717
September 1, 2014	14,000	7,717	21,717
March 1, 2015		7,289	7,289
September 1, 2015	15,000	7,289	22,289
March 1, 2016		6,829	6,829
September 1, 2016	16,000	6,829	22,829
March 1, 2017		6,339	6,339
September 1, 2017	17,000	6,339	23,339
March 1, 2018		5,819	5,819
September 1, 2018	18,000	5,819	23,819
March 1, 2019		5,268	5,268
September 1, 2019	20,000	5,268	25,268
March 1, 2020		4,655	4,655
September 1, 2020	21,000	4,655	25,655
March 1, 2021		4,012	4,012
September 1, 2021	23,000	4,012	27,012
March 1, 2022		3,308	3,308
September 1, 2022	24,000	3,308	27,308
March 1, 2023		2,573	2,573
September 1, 2023	26,000	2,573	28,573
March 1, 2024		1,776	1,776
September 1, 2024	28,000	1,776	29,776
March 1, 2025		919	919
September 1, 2025	30,000	919	30,919
	<u>\$ 332,000</u>	<u>\$ 250,267</u>	<u>\$ 582,267</u>

VILLAGE OF ELLSWORTH, MICHIGAN

STATEMENT OF 2005 TAX ROLL
YEAR ENDED FEBRUARY 28, 2006

TAXES ASSESSED (State Taxable Valuation \$7,628,253)

General Fund - 11.0000 Mills	\$ 83,910
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TAXES COLLECTED

General Fund	<u>69,453</u>
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TAXES RETURNED DELINQUENT

General Fund	<u><u>\$ 14,457</u></u>
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134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 18, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council
Village of Ellsworth, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ellsworth, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village of Ellsworth's basic financial statements and have issued our report thereon dated May 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Ellsworth's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Ellsworth's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Letter of Reportable Conditions.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the accompanying Letter of Reportable Conditions is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Ellsworth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Village Council and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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CERTIFIED PUBLIC ACCOUNTANTS

May 18, 2006

LETTER OF REPORTABLE CONDITIONS

To the Village Council
Village of Ellsworth
Ellsworth, Michigan

In planning and performing our audit of the basic financial statements of the Village of Ellsworth, Michigan for the year ended February 28, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Village and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

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May 18, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Village Council
Village of Ellsworth
Ellsworth, Michigan

As a result of our audit of the financial statements of the Village of Ellsworth, Michigan, for the year ended February 28, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting procedures of the Village:

Budgeting

Pertaining to the Village's compliance with Public Act 621 of 1978, the following items are noted:

1. Three activities in the General Fund exceeded the budgeted amount. In addition, the Major Street Fund, Local Street Fund, and Recreation Fund expenditures exceeded budgeted amounts.
2. Overall, the budgeting procedures used by the Village are extremely accurate, and we encourage the Village to continue this excellent effort.

Property Tax Administration Fee

The Village is charging a 1% property tax administration fee. The Village has determined that authorized costs of tax collection will be repeatedly in excess of revenue generated by the administration fee but has not formally taken action to write off this loss. We recommend that the Village keep subsidiary records which reflect property tax administration fee collections and costs and that the board pass a motion to write off the loss annually.

Reportable Condition in Internal Controls

In planning and performing our audit of the basic financial statements of the Village of Ellsworth for the year ended February 28, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

Certain matters considered to be reportable conditions in internal control were noted. We have included a separate letter (letter of reportable conditions) which addresses those items noted.

We would like to thank the Council for its continued confidence in our firm by awarding us the audit assignment of the Village. We would also like to thank the Clerk and President for their cooperation in helping us fulfill the audit of the Village records.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

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